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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# Report of the Special Committee on Preferences on its twentieth session

held at the Palais des Nations, Geneva,
from 10 to 14 May 1993

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## INTRODUCTION

1. The twentieth session of the Special Committee on Preferences was held from 10 to 14 May 1992. In the course of its session, the Special Committee held 4 plenary meetings (177th-180th). In addition, private and confidential bilateral consultations were also held on individual schemes. This report gives an account of the deliberations in plenary meetings.

Introductory statements

2. The Chairman said that the GSP had earned its reputation of being an important tool of trade and development cooperation between developed and developing countries. The advantages which developing countries derived from better market access in developed countries provided them with the means to continue their development programmes and enabled them to increase their purchases from those same developed countries. This mutuality of advantages was a great catalyst for expansion of trade. There was a widely held perception that the expansion of world trade in 1993 must be above that registered in 1992 in order to promote world economic recovery. The GSP had a significant role to play in this recovery, first by contributing to trade expansion and second by helping to abate inflationary pressures and thereby contributing to growth in output. In the current review of the operation and effects of the GSP, it was necessary, therefore, to consider how best to improve its many advantages so that it could reach its full potential. The Special Committee's approach should be guided by two principles. First, the framers of the GSP had envisaged that improvements should be pursued in a consistent and timely fashion and in a dynamic context. Second, the discussions should be guided by the new partnership for development which had emanated from the Cartagena Commitment.

3. The Deputy to the Secretary-General of UNCTAD said that, after more than two decades in operation, the GSP had proved to be one of the most durable and effective instruments of development cooperation between developed and developing countries. In 1991, more than 72 billion dollars' worth of exports had been generated with the help of the GSP. However, the system had not yet achieved its full potential, since these imports represented barely a quarter of dutiable imports from developing countries. The meeting of the Special Committee on Preferences provided an opportunity to take stock of its achievements and to see how further gains could be made.

4. The GSP was at present at a difficult juncture. Its further evolution depended on a host of factors, above all its status of implementation. It was well known that some preference-giving countries applied their schemes for an indefinite period, while others had extended theirs for all or a major part of the current decade. The renewal of all other schemes, including two of the major ones, was a matter of great importance which would alleviate apprehensions among developing countries as to the security of the preferential access. He emphasized that the GSP had been conceived as a global system, and any uncertainty regarding the implementation of any one scheme could put the whole programme into difficulty.

5. Another challenge for the GSP would come after the completion of the current Round of trade negotiations. A successful Uruguay Round would no doubt provide some new opportunities for developing countries on an MFN basis. However, one of the direct effects would obviously be an erosion of GSP tariff margins. As this erosion could be measured, it should be possible for preference-giving countries to take it into account when making the necessary adjustments to their schemes so as to maintain preferential margins. In this connection, he recalled paragraph 140 of the Cartagena Commitment, which specifically asked that, following the successful conclusion of the Uruguay Round, GSP preference-giving countries should consider, where possible, increasing preferential margins and duty-free treatment under the schemes.

6. The Uruguay Round would also have another direct effect in at least two other areas. The Draft Final Act included tarification of all non-tariff measures in agriculture and a phase-out of the MFA. If these two changes were actually implemented, they would unavoidably result in high MFN tariffs on agricultural products and on textiles and apparel. There was no doubt that GSP preferences in these areas could provide real opportunities for developing countries, since these two sectors were of vital importance to their exports. While the granting of duty-free treatment on these products from the outset would be highly desirable, a pragmatic approach might be to grant a significant fractional duty reduction initially, to be followed by a deeper preferential margin at a later stage. Other possibilities for GSP improvements could include full duty-free preferential treatment under those schemes that currently provided fractional duty-free reduction, expanded product coverage, relaxed safeguards and simplified origin rules.

7. At its last session, the Special Committee had broken new ground when it had addressed squarely the problem of graduation in the context of expanding the product coverage under the GSP. It was a healthy development for developing countries to get involved in the debate on an issue that currently was being unilaterally decided by developed countries. At the conclusion of that session, the Chairman had very rightly said that these issues were being raised for the first time and would naturally need to be assessed and further examined. This applied in particular to the need to develop objective and rational criteria in the application of graduation. As the secretariat saw it there were a number of issues which were central to the debate on this subject. It was necessary, first of all, to be clear about the objectives of graduation. A number of answers had already been advanced, such as the "sharing of benefits", "burden-sharing", the removal of beneficiaries no longer in need of preferences, or even the integration of graduates into the disciplines of the international trading system. The second aspect to be considered concerned the scope of graduation, in particular whether it should be product-wise or country-wise. There appeared to be a general consensus that product graduation was preferable to a complete country exclusion. The third aspect related to the criteria for graduation. The controversy in this case centred on the problem of deciding whether graduation was to be based upon a country's stage of development, however measured, or on the country's ability to export GSP-covered products. Further, should graduation comparisons be made in relation to developed countries or other GSP beneficiaries? Further discussions on all these issues should take place at the Committee's current session.

8. As in the past, arrangements had been made for delegations to hold informal bilateral consultations on the various schemes. These consultations provided an opportunity for discussing specific requests for improvement of the schemes, which he hoped would be successful.

9. Technical cooperation played an important role in improving the utilization of the schemes. UNCTAD's activities in this regard had remained at a high level in 1992 thanks to the generous trust fund contributions made by UNDP and member States. In-kind contributions had also been substantial. In this connection, he welcomed in particular the pledges made by the Governments of Japan and Switzerland. He stressed, however, that there was a wide gap between the requests for technical cooperation for better utilization of the schemes and the funds available for acceding to such requests, and the Special Committee might wish to examine how best to secure the necessary financing for technical cooperation on a sound and predictable basis.

10. Finally, arrangements had been made for a demonstration, during the Committee's session, of an updated version of the software for "Trade Analysis and Information System" (TRAINS) which was designed to enable beneficiaries and policy makers to have easy access to the full details and trade implications of the GSP schemes.

11. The Director of the International Trade Division said that the secretariat's "Sixteenth general report on the implementation of the GSP" (TD/B/SCP/3 and Add.1) highlighted the main changes made in the GSP and also updated the trade effects of the system. One notable development had been the additions to the beneficiary lists of a number of schemes reflecting the emergence of new countries in Eastern Europe. In this connection, annex I of the document contained an updated list of beneficiaries under the various schemes, but some countries and territories appeared only as nominal beneficiaries at least under two schemes for failing to make the proper notification of impressions of seals of their certifying authorities or for failing to notify the changes made as to the proper certifying authorities. He urged these countries to comply with the notification requirement as soon as possible to avoid being deprived of GSP opportunities.

12. With regard to product coverage, and with the exception of the United States, there had been no significant additions to the schemes. Also, the built-in limitations in the major schemes continued, on the whole, to act as a restraint on preferential trade. Preferential imports, on the other hand, continued to exhibit dynamic growth reflecting the greater relevance of the GSP to beneficiary countries as they adapted their production and export capability in product lines covered by the system. There was sufficient evidence that the adaptation of this supply capability would continue to increase pari passu with the expansion of the product coverage. The possibilities in this area remained enormous, since only about 50 per cent of dutiable imports were covered by the GSP and therefore eligible for preferential treatment.

13. The secretariat's report on technical cooperation activities (TD/B/SCP/2) clearly showed that the delivery of such activities continued at a high level. The secretariat was most grateful to those member States that had provided financial and in-kind resources which, together with UNDP financing, allowed it to sustain that high level. However, because of insufficient financial

resources, a large number of requests for training activities could not be satisfied. Developments in the international trading system having a direct effect on the GSP, on the one hand, and the increased level of supply capabilities in a number of beneficiaries, on the other, would no doubt accentuate the need for such activities. He hoped, therefore, that ways and means could be devised which would make it possible to meet the requests for training and advisory services on a secure basis. He stressed that, as these requests multiplied, the amount of substantive and administrative backstopping also increased, which also called for additional resources.

14. He drew attention to the work programme recently adopted by the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries. This Group had been mandated, inter alia, to analyse and identify product and export market opportunities which were a consequence of developments in various areas, including the GSP. In this connection, he pointed out that the Working Group would draw on the work of other UNCTAD bodies, including the Special Committee on Preferences.

15. The representative of Chile said that the GSP had shown itself to be an important means of international cooperation, but it should be improved with a view to increasing its flexibility and transparency. Measures that could be taken included increasing preferential margins, including a larger number of agricultural and textile products, eliminating quotas and maximum amount limits, and simplifying the rules of origin. It was also necessary to give beneficiaries sufficient time to adapt their supply to new requirements of demand in preference-giving countries. In order to impart stability to the schemes, any revisions should last for a minimum period of more than two years.

16. He expressed concern regarding certain preferential measures favouring different groups of countries. Such discrimination jeopardized the effectiveness of the system and had an adverse effect on countries such as his own, which was a firm believer in free but equitable trade. He considered that the issues of graduation and competitive need should be discussed by the Special Committee with a view to reaching consensus on multilaterally agreed criteria for their application. The Special Committee could also serve as a forum for discussion of specific cases emanating from beneficiary countries or from preference-giving countries. He proposed the creation of a consultation mechanism composed of a limited number of government experts which could meet two or three times a year to examine concrete cases and report its findings to the Committee. This group could also examine the problems of the rules of origin and make recommendations as to their simplification and harmonization. He expressed the hope that, after the Uruguay Round, donor countries would, in revising their schemes, not only maintain but also improve their preferential margins as an expression of their will to cooperate with developing countries.

17. Regarding the bilateral consultations that would be taking place during the Committee's session, he observed that the number of such consultations had diminished and suggested that an evaluation was needed to see what changes could be made to strengthen their effectiveness in the future.

18. In conclusion he stressed the need to maintain the GSP technical assistance programme, which had provided a very useful service, and called on UNDP and the developed countries to lend greater support to such activities.

19. The representative of Bangladesh said that, while some preference-giving countries had adopted special measures for the least developed countries within the GSP schemes, countries such as his own faced certain difficulties in utilizing the GSP schemes. The diversity of the rules of origin in terms of origin criteria, consignment conditions and the documentary evidence required hampered the utilization of GSP schemes by beneficiaries. For example, in some cases woven garments had to undergo two-stage transformation, while knitted garments were subject to three-stage transformation, even though the processing involved was the same. In addition, some preference-giving countries required value-added of 35 to 40 per cent for garment exports under the GSP, whereas for a country like Bangladesh, this requirement should be reduced to 25 per cent. Further simplification and harmonization of the rules of origin, particularly for the LDCs, was, therefore, urgently required. In this connection, some major preference-giving countries maintained large negative lists which included ready-made garments, and the least developed countries might be exempted from these lists in order to enable them to take full advantage of their limited export potential.

20. A number of other factors hampered the utilization of the GSP schemes such as inadequate institutional facilities, a narrow export base, and lack of familiarity with procedures and documentation requirements. Although technical assistance could play an important role in these areas, the improvement of the GSP schemes was more important. Improved GSP schemes coupled with technical assistance would enable beneficiaries to improve their market access.

21. The Programme of Action for the Least Developed Countries stressed the need for further improvement of GSP schemes, as well as improved market access for products originating in LDCs. In particular, it called for broad actions such as wider product coverage, flexible rules of origin, exemptions from quotas and ceilings, stability and predictability of preferences and simplification of procedures. He hoped that preference-giving countries would implement such measures in favour of the least developed countries. These countries, for their part, were willing to make greater efforts through institution-building, development of their export sector and diversification to fully utilize the existing schemes. Finally, it was important to ensure that the Uruguay Round of Multilateral Trade Negotiations did not result in an erosion of the preferential margin provided by the existing schemes as they related to the least developed countries.

## Chapter I

## REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 3)

## CONSULTATIONS ON HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN

(Agenda item 4)

## TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 5)

22. For its consideration of these items, the Special Committee had before it the following documentation:

"Sixteenth general report on the implementation of the generalized system of preferences: report by the UNCTAD secretariat" (TD/B/SCP/3) (item 3);

"Technical cooperation activities on the generalized system of preferences and other trade laws: report by the UNCTAD secretariat" (TD/B/SCP/2) (item 5).

23. The representative of Austria, referring to his country's GSP scheme, said that, as from 1 January 1993, Austria had added the remaining States formerly members of the USSR to the list of preference-receiving countries under Group I. The former Socialist Federal Republic of Yugoslavia had been deleted from the list as from 1 January 1993, but certain former constituent republics were recognized as preference-receiving countries. Developments in the scheme also reflected the conclusion of free trade agreements (FTAs) between EFTA and a number of former or current preference-receiving countries. Given the fact that the trade advantages under the new free trade agreements went further than those under the GSP, it was not deemed necessary to keep GSP treatment for the new free trade partners. However, his country had decided to grant transitional periods of six months for which free trade treatment and GSP treatment would be applied in parallel. Thus, since the FTA with Turkey had entered into force on 1 October 1992, Turkey had been excluded from the list of beneficiaries from 1 April 1993. The Czech Republic and the Slovak Republic were recognized as separate beneficiaries and were granted full cumulation. However, taking into account the EFTA FTA which had entered into force on 1 December 1992, both countries would be deleted from the list of beneficiaries as from 1 June 1993. The EFTA FTA with Israel had entered into force on 1 January 1993, and Israel would thus be excluded from the scheme as from 1 July 1993. Similar measures were envisaged in connection with the entry into force of the EFTA FTAs with Poland, Hungary, Romania and Bulgaria.

24. With regard to product coverage, his country had added one new product to its list of eligible products falling within HS chapters 1-24. With effect

from 1 March 1993, sweet peppers under heading No. 0904.20 were granted GSP treatment. No new safeguard action had been taken under the scheme.

25. Turning to technical assistance on the GSP, he said that the secretariat's report had clearly shown the continuing need for this kind of assistance. In the recent past, an Austrian expert had lectured at a regional GSP seminar held in Guatemala for Central American countries. On a bilateral basis, a national GSP seminar on the Austrian GSP scheme had been held in Tirana, Albania, in April 1993. He was grateful to the GSP Project for sending a lecturer to a seminar on trade policy matters which his country had organized in the autumn of 1992 for officials from China.

26. His country was ready to continue its contribution to the GSP project within its very limited budgetary and administrative possibilities. In particular, it could supply the project with copies of Certificate Form A. Finally, a new and updated edition of the handbook on the GSP scheme of Austria would be published in the summer of 1993.

27. The representative of Japan, referring to his country's GSP scheme, said that Croatia, the Czech Republic, the Slovak Republic and Slovenia had become new beneficiaries of the scheme as from 1 April 1993, which put the total number of beneficiaries at 134 countries and 25 territories. GSP ceiling quotas for fiscal year 1993 had been announced, and in order to promote utilization of the GSP, quotas for 20 product groups had been abolished and ceiling levels for 51 product groups had been increased. The scheme was in principle safeguarded by an escape clause system which had, however, never been applied.

28. The GSP schemes had been designed and implemented taking into account the individual economic structures and conditions in preference-giving countries, as well as those in beneficiary countries. In order to obtain an optimum utilization of GSP advantages, voluntary efforts by preference-giving countries to make the schemes simpler and more transparent, as well as efforts by beneficiary countries to strengthen their technical and administrative capacity to utilize them, needed to be further encouraged. Japan would continue to play its role in supporting the UNCTAD Technical Cooperation Programme on the GSP and Other Trade Laws.

29. His country intended to send an associate expert on GSP to the UNCTAD/UNDP Regional Project for Asia and the Pacific. His Government attached great importance to the holding of GSP seminars and had financed a number of them. In fiscal year 1993, his Government would contribute US$ 250,000 to fund GSP seminars under the Programme, which represented an increase from the US$ 150,000 contribution made in fiscal year 1992. Finally, each year his Government provided pamphlets in English explaining Japan's scheme.

30. The representative of Canada said that his country's scheme had undergone a number of changes since its implementation in 1974, such as the addition of new products, lower rates of duty, improved rules of origin to allow for global cumulation and the addition of new beneficiaries.

31. Legislation was required if the scheme was to be extended beyond 30 June 1994. His Government had indicated two years previously that

it would undertake a comprehensive review of the scheme once the Uruguay Round was completed. In view of the time-frame for the Round's completion, any decisions regarding substantive changes to the Canadian scheme might also have to be delayed. His Government continued to welcome suggestions from individual beneficiaries in this regard. He noted some technical corrections to document TD/B/SCP/3.

32. As from 9 March 1993, Canada had added Cambodia, Liberia, Madagascar, Mozambique, the Solomon Islands, Zaire and Zambia to its list of least developed beneficiary countries. Preferential tariff treatment had also been extended to all of the former Soviet Republics. Since 1992 his country had not undertaken any new safeguard measures, and the scheme thus continued to be characterized by a high level of stability and transparency.

33. Of the 180 countries and territories to which his country extended preferential tariff treatment, over 70 of them had never made the notification regarding the certifying authorities. Another 60 eligible beneficiaries had not updated the information on their certifying authority for at least five years. His delegation, which included a customs expert, would be pleased to discuss this matter further with the beneficiaries concerned.

34. Regarding technical assistance, his Government had continued to be a strong supporter of technical assistance to GSP beneficiary countries in 1992 and 1993. His country had sent an expert to participate in national and regional seminars or workshops organized by UNCTAD in Malaysia, Panama, Romania, the Slovak Republic and Guatemala. It had also provided technical assistance in the form of seminars and missions to a number of developing countries in all regions through the Canadian Trade Facilitation Office, which was a non-profit organization funded by the Canadian Government. In addition, the Trade Facilitation Office had brought to Toronto 30 business women from 17 beneficiary countries to attend seminars on how to export to Canada. His Government believed that technical assistance remained critical in enhancing the opportunities for export growth in developing countries.

35. The spokesman for the Asian Group (Sri Lanka) said that one of the more important developments during the period under review was the extension of GSP benefits to the Central and Eastern European countries as a part of the assistance package given to these countries to facilitate their transition towards the market economies. This was a very significant development. Action by the donor countries not only demonstrated recognition of the GSP as a time-tested and more effective instrument of international economic cooperation but also recognized that the system was fully consistent with market-oriented trade reforms. However, it was necessary to evaluate the legal and economic implications of this action for the developing countries and the secretariat should prepare a study on that question.

36. Most of the Asian developing countries had undertaken autonomous economic and trade liberalization measures in the recent past, at considerable economic and social cost. The international community should support the efforts of developing countries, inter alia, by expanding the benefits under the GSP.

37. The benefits of the GSP could be increased by the expansion of the product coverage to include products of current and potential export interest to developing countries, particularly the LDCs. Paragraph 135 of the Cartagena Commitment recognized the need for such an expansion of product coverage.

38. The successful conclusion of the Uruguay Round would bring new challenges and opportunities for the GSP. Any reduction of the MFN rates at the conclusion of the Round should be followed up by favourable adjustment of preferential margins and duty free treatment. The tarification of non-tariff measures at the end of the Round would present new areas for inclusion in the system. The UNCTAD secretariat should study the impact of the results of the Uruguay Round on the GSP and identify the follow-up action required to strengthen the system.

39. The extension of more favourable treatment to a group of countries from a particular region discriminated against other preference-receiving countries with similar export interests, and in keeping with the non-discriminatory principles of the GSP all such benefits should be extended to all beneficiary countries.

40. At the nineteenth session of the Special Committee, it had not been felt necessary to have a formal negotiated outcome of the meeting. One of the main tasks at the twentieth session would be to move forward in accordance with the "progressive sequence" described in paragraphs 51 to 57 of the Cartagena Commitment. The issues had been identified the previous year, and now it was time to have a dialogue and an interaction aimed at identifying areas of convergence leading to agreed conclusions and recommendations. The issues identified as constituting the most noteworthy topics of discussion were: graduation or differentiation; rules of origin; and technical assistance.

41. The Asian Group considered that multilaterally agreed objective and rational criteria should be developed for the process of graduation. Preference-giving countries should refrain from taking any action under this process without consulting the relevant preference-receiving countries and should always allow the exporters in these countries sufficient adjustment time. One of the more positive effects of graduation should be a better spread of benefits among developing countries. It should also open up possibilities for increased product coverage in areas of export interest to developing countries.

42. At the nineteenth session of the Committee, there had been widespread agreement on a number of issues related to the rules of origin. The Asian Group supported the position that harmonization should be treated as an issue separate from other possible improvements to the system. The absence of a "donor country content" rule in the schemes of some of the preference-giving countries hindered exports from the region to those countries. His Group fully supported the inclusion of "donor country content" and full global cumulation in any attempts at harmonization.

43. The Asian Group appreciated the technical cooperation training activities undertaken by UNCTAD on GSP and other trade laws during 1992. The Asian countries had substantially benefited from this programme and expressed their appreciation to the countries which contributed funds. However, there were

many outstanding requests from Asian countries for such activities which the UNCTAD secretariat could not satisfy due to lack of financial support, and the Asian Group appealed to the international community to continue and improve its financial support for the technical cooperation projects in question.

44. The representative of Pakistan said that, ever since the principle of granting preferences had been accepted in 1968, only one quarter of exports from developing countries had actually been able to lay claim to preferential treatment. This situation was inadequate, particularly in view of the growing tendency towards regionalism in the developed world through the formation of free trade areas, customs unions, etc., which had resulted in exports from developing countries being rendered uncompetitive.

45. His country was opposed to the concept of country graduation and product graduation. Most developing countries exported a very small range of products, and it therefore made no sense to penalize them for one or a few items for which they had the capacity to export on a competitive basis. He recalled that the GSP schemes had originally been structured to reflect the varying import capacity of preference-giving countries. However, these countries had become richer as the poor countries had become poorer, and they could well afford to improve the schemes by making them simpler, predictable and equitable and by harmonizing the rules of origin. Discriminatory treatment was another flaw in the GSP. His country deplored the use of non-economic considerations in the granting of preferential treatment. This kind of arm twisting to which developing countries were subjected was not desirable.

46. The representative of Sweden said that his country's scheme was simple, transparent and predictable and its validity was unlimited in time, so that no specific decision on extension was needed. The least developed countries recognized as such by the United Nations enjoyed full exemption from customs duties on all goods, and there were no quotas or ceilings. All the LDCs had to do to benefit from the scheme was to fulfil the notification procedure regarding their certifying authorities. To date, 24 of the 47 LDCs had made the necessary notification, and he urged the remaining 23 LDCs to comply with this procedure. Other developing countries enjoyed total exemption from customs duties for goods to which the scheme applied, and such goods were also free from tariff quotas or ceilings. Some changes had been made in the beneficiary list since the Committee's nineteenth session, but most of them were reflected in the secretariat's report.

47. Regarding the utilization of the scheme, total imports for 1992 had amounted to 5.2 billion Swedish crowns, which corresponded to 20 per cent of total imports from beneficiary countries. In addition, goods worth 10.7 billion Crowns had been imported duty-free on an MFN basis, which meant that altogether 62 per cent of total imports from beneficiary countries had been duty-free. The average utilization rate of the scheme in 1992 had been 63 per cent, and this confirmed the trend of recent years.

48. Regarding technical assistance in connection with the GSP, his country's contribution for 1993 to the Central Trust Fund would be equivalent to US$30,000. His country attached great importance to the provision of assistance to developing countries, especially the LDCs, and through the years 1984 to 1992 Sweden had supplied no less than 25 per cent of the total

financial contributions made to the Technical Cooperation Programme on the GSP and Other Trade Laws.

49. The representative of Romania said that the Committee's twentieth session provided a good opportunity to look at the role that the GSP should play in the last decade of the century, which was marked by profound economic and political changes in many countries. The pace of economic reform and the advancement of democracy in large areas of the world had created the need for a new approach to the global problems of the time. The GSP was of increasing importance to her country, which was engaged in an all-out process of democratization and transition to a market economy. In carrying out its economic reform, Romania was confronted basically with two types of difficulties: those due to the extremely critical economic situation inherited, and those entailed by the contradictions and costs generated by the transition itself. Her country was making great efforts to overcome these difficulties, but assistance from the international community was needed. In this context, she fully supported the conclusions and recommendation of the UNCTAD secretariat, which emphasized both the positive contribution of the GSP to the expansion and diversification of world trade and the areas in which the system could be further improved. These included the need for continuous improvement of the schemes, as well as their prolongation, the observance of the principles of non-reciprocity and non-discrimination; better product coverage, as well as reduction and elimination of limitations and restrictions on preferential imports; avoidance of arbitrary elimination of preferences; simplification and harmonization of the rules of origin; the granting of donor country and regional content cumulation; and the avoidance of non-tariff measures on products covered by the schemes.

50. With regard to the tariff concessions to be agreed in the Uruguay Round, it would be useful for the UNCTAD secretariat to conduct a study on the impact of the Round on the GSP and appropriate ways of improving the existing preferential schemes in order to compensate for the erosion of preferential margins.

51. She expressed appreciation to UNCTAD for the seminar on GSP and Other Trade Laws which had taken place in Bucharest in July 1992, as well as to the Government of Japan for its generous financial contribution to this project.

52. A preliminary evaluation of the operation of the GSP in her country showed that the number of economic operators applying for GSP certificates of origin had undergone a 200 per cent increase, while the value of the goods for which GSP certificates had been issued in the first four months of 1993 had been 1.5 times higher than for the same period in 1992. For the time being, most exports were oriented towards EC and EFTA countries. From 1 May 1993, Romania would not be on the GSP schemes of EC, Switzerland and Swede. as a result of the recent conclusion of European and FTA agreements respectively. Romanian exports to other preference-giving countries had their importance too, and further technical assistance was both needed and welcomed by the Romanian authorities. A focal point had been set up within the Ministry of Trade to disseminate information on the GSP and other preferential systems. Her country would appreciate receiving documentation on GSP and other trade laws, as well as any technical support to enable it to take advantage of the system.

53. The representative of Indonesia said that the developing countries had indeed benefited from the preferential tariffs introduced under the GSP, but in view of the mutuality of benefits from the system, she urged preference-giving countries to renew and/or improve their schemes with a view to substantially enhancing preferential access for the products of developing countries, imparting to such access a measure of stability and predictability, and discontinuing the practice of product-specific graduation.

54. Graduation which led to restrictions on qualifying imports or to discretionary exclusion from preferential treatment was against the non-discriminatory principle of the GSP. Graduation had originally been intended to provide a better spread of benefits and to create new trading opportunities through wider product coverage. Instead it had resulted in a detrimental utilization of the schemes. Further recourse to graduation should be based on multilaterally agreed criteria which should be objective, non-discriminatory and non-reciprocal in nature. Likewise it should be strictly based on trade and economic considerations, to the exclusion of non-trade issues. Reference to per capita income and development level, although valid, was insufficient to graduate a country. Consultations with the countries affected should take place before a notice of graduation was sent, and countries affected should be given sufficient leeway to adjust their economies to the new situation.

55. In its resolution 11 (XVII), the Special Committee had recommended that preference-giving countries should consider granting deeper tariff cuts aimed, where possible, at duty-free treatment. This recommendation had acquired greater significance in view of the MFN tariff reductions expected as a result of the Uruguay Round. She urged the preference-giving countries concerned to follow the example of the Japanese and the Nordic schemes in granting across-the-board duty-free treatment. One way to mitigate the effects of the erosion of GSP margins of preference was through further harmonization and improvement of the rules of origin. She also underlined the potential contribution which the donor country content rule could make in stimulating economic cooperation and two-way trade between developed and developing countries. The granting of regional and subregional cumulation facilities under the GSP was also an important means for furthering economic cooperation among developing countries.

56. She expressed appreciation for contributions made to the technical assistance programme by UNDP and other bilateral resources. However, she noted with concern the decline in the funding of such activities. It was clear from the secretariat report that the demand for technical assistance on the GSP was still high, and she appealed to all countries, UNDP and other potential donors to provide further assistance either in the form of trust funds or in-kind contributions to meet the demands from developing countries for technical assistance.

57. She noted with appreciation that the Japanese scheme had been extended until 2001 and that the scheme of EC would be extended until the end of 1993. Similar intentions had also been expressed by some other preference-giving countries, which demonstrated a measure of good will towards developing countries.

58. The representative of Switzerland said that Cambodia, Madagascar, the Solomon Islands, Zambia and Zaire had been included in the list of least developed countries for his country's scheme. Following the conclusion of a Free Trade Area Agreement between Turkey and EFTA countries, Turkey had been deleted from the list of Swiss GSP beneficiaries.

59. He recalled that the Swiss scheme did not include any quantitative restrictions and that no product had ever been withdrawn from the list since the introduction of the scheme. In 1992, total imports from preference-receiving developing countries had amounted to about US$ 4.7 billion, or 10 per cent less than the previous year. Eligible GSP imports from developing countries had amounted to US$ 3.4 billion, i.e. 68 per cent of all imports. The utilization rate for all beneficiaries had increased from 40 per cent in 1991 to 43 per cent in 1992. However, if precious stones and metals were not taken into account due to their very low tariffs and in view of the fact that preferences were seldom asked for these products, the utilization rate would have been 63 per cent.

60. He expressed satisfaction with technical cooperation activities on GSP. His country had supported such activities for the last 10 years and had contributed US$ 250,000 for that purpose for the years 1992 and 1993, inter alia to finance a regional seminar in Latin America and a regional seminar for French-speaking African countries.

61. The representative of the United States said that his country continued to add both countries and products to its scheme. Ethiopia and each of the former republics of the Socialist Federal Republic of Yugoslavia (other than Serbia and Montenegro) had been added. In addition, the eligibility of Albania and the Russian Federation was currently being reviewed. Almost 100 products had been added to the list of articles eligible for GSP benefits as a result of the 1991 GSP annual review and the special GSP review for Central and Eastern Europe. While relatively few petitions to add products to the list of eligible articles were being reviewed in the 1992 GSP annual review, duty-free imports of GSP-eligible items had continued to increase. In 1992, these imports had represented a 22 per cent growth over 1991, rising from $13 billion to $16.7 billion. This growth could be compared to a 2 per cent rise in total United States imports from all countries over the same period. In addition, approximately 22 per cent of all imports from GSP beneficiary countries had also entered the United States MFN duty-free. In the area of technical assistance, his country was currently conducting GSP seminars in several African countries, and copies of a guidebook on the scheme were available upon request.

62. In the coming year, his Government would be primarily engaged in the renewal of the scheme. By law, the scheme expired on 4 July 1993, and renewing it would require legislative action by Congress. The United States Administration had formally requested that Congress pass legislation to extend the GSP for 15 months beyond its current expiration date. In addition, the legislation would delete the provision which prevented extension of the GSP to the countries which had formerly constituted the Soviet Union. The Administration's proposal was currently being considered by Congress. During this 15-month period, the Administration and Congress planned to work together on a long-term extension of the scheme, examining it in depth and determining how it could be improved.

63. With regard to the renewal of the scheme, the process was an open one, in which all interested parties, foreign and domestic, were invited to participate. In 1992, his Government had published an announcement in the Federal Register soliciting public comments on renewal from any interested party, and that had been followed by public hearings on GSP renewal in Washington. Several beneficiary countries had submitted comments and/or participated in the hearings, and the comments and suggestions which they had provided would be given thoughtful consideration by the Administration.

64. Literally every aspect of the scheme was under consideration and review, and the scheme that eventually emerged could look considerably different. The scheme had evolved over time in order to integrate more closely with the country's trade policy, and it was not unreasonable to expect this to continue.

65. The United States remained committed to the overall aims of the GSP - economic growth and development through expanded trade with developing countries. Accordingly, his country utilized its scheme to promote trade with those nations which were less competitive in world markets, thus facilitating their economic development. There had been rapid growth in the levels of development of those beneficiaries most able to utilize the scheme. This same phenomenon was being witnessed with respect to the economies in transition which, by any standard, were at such a level of development as to deserve preferential treatment.

66. In conclusion, he stressed that the GSP had not been intended as a permanent bilateral assistance programme, or a substitute for the reduction of trade barriers through multilateral trade negotiations. The principle of graduation, which was as old as the GSP itself, was a necessary corollary to the granting of trade preferences.

67. The representative of the Russian Federation said that the GSP was an important instrument of multilateral cooperation in the field of trade and development, and her country endorsed the general, non-discriminatory and independent nature of the system.

68. By presidential decree of 15 March 1993, a new customs tariff had entered into force in the Russian Federation. Duty on goods originating in developing countries other than LDCs was set at 50 per cent of the base MFN rates, while goods from LDCs were imported duty-free. A provisional list of countries receiving preferences under the temporary scheme of the Russian Federation had been established.

69. The Customs Tariff Law, as adopted by the Supreme Soviet of the Russian Federation, legally strengthened the status of the Russian Federation as a preference-giving country. The Law gave the Government of the Russian Federation the right to establish and review a national scheme of preferences for goods from developing countries. The law would enter into force upon the issuance of the related Presidential decree.

70. The Russian Federation was also a preference-receiving country, and it thanked Canada, Austria and the EC for including it in their schemes. It hoped that this would help solve the problem of gaining access for its exports

to developed country markets. It regarded preferences as an additional source of external support for its economic reforms.

71. The representative of India said that the GSP was now a time-tested instrument for trade creation for the mutual benefit of both preference-giving and preference-receiving countries. It had played a positive role, even if in a limited way, in achieving the objective of increasing export earnings of developing countries, stimulating their industrialization, accelerating rates of growth, diversifying production and exports and providing a fillip to their economic development in general. The system was anchored in the principles of non-reciprocity and non-discrimination, which had to be maintained. It was necessary, therefore, for the GSP to be extended on a long-term basis so as to ensure the stability and predictability of its advantages. He commended the developed countries that had already announced the extension of their schemes, and he urged others to do the same, in line with paragraph 134 of the Cartagena Commitment.

72. Secretariat document TD/B/SCP/3 showed that the actual amount of developing country exports which benefited from the GSP was not very large, and there was ample scope for wider coverage and simplification that would allow utilization of the schemes. Sustained efforts were required to introduce products of current and potential export interest to developing countries, including agricultural products.

73. The use of the GSP for extraneous purposes served only to detract from its usefulness. India's GSP-covered exports were increasingly being affected by so-called product country exclusions, competitive need criteria provisions, global ceilings and maximum country amounts and other a priori limitations and restrictions in some major schemes. These could be seen as sources of instability, uncertainty and complexity in GSP schemes. Product-specific graduation went against the objectives of the GSP, namely to promote industrialization and exports of developing countries, by denying preferential benefits to the very countries that were in a position to make use of these benefits. As regards competitiveness, there had to be some multilaterally agreed criteria to show the proven, sustained and absolute competitiveness of a beneficiary before preferential treatment was withdrawn.

74. There was considerable variation in the conception and execution of the various schemes. The system as a whole would benefit from harmonization of rules of origin, greater transparency and simplicity in its implementation. This would help to ensure equivalence in conditions of access to the markets of the preference-giving countries. Liberalization of the rules of origin through the inclusion of full and global cumulation, complemented by measures to include contents originating in the preference-giving country, would not only greatly improve utilization of the system by beneficiary developing countries but would also spur export-oriented investment in these countries and stimulate South-South trade and economic cooperation. On the question of safeguards, preference-giving countries should limit action to escape-clause-type measures only and respect the principles of exceptionality, temporariness and prior consultation with potentially affected beneficiaries.

75. The representative of the European Community said that the contacts established at the Special Committee's session could be built on throughout the year with a view to improving beneficiaries' knowledge of schemes and

hence enabling them to make more efficient use of them. The Community continued to support the UNCTAD secretariat's efforts in this field, either through direct participation or by organizing its own seminars and workshops.

76. The Community was fully aware of the beneficiary countries' wish to promote the harmonization and improvement of the rules of origin. It also remained of the opinion that donor country content, together with regional cumulation, could increase the efficiency of the system of preferences, bearing in mind the need for special measures in favour of the least developed countries.

77. In 1993 the Community scheme had been extended without change, at least as far as its structure was concerned. This did not imply that progress had not been achieved. This was borne out by the particularly encouraging figures reported in the utilization of the scheme. The latest available statistics, which were for 1991, showed a substantial increase in preferential imports into the Community in all sectors, particularly industry. This demonstrated that, despite the natural erosion of preferential margins, the scheme continued to play its traditional role in promoting the industrialization of beneficiary countries, the GSP's foremost objective from the outset. This positive trend was particularly significant among Latin American countries, which for too long had suffered from an export trade structure primarily focused on agriculture, to the detriment of industrial exports.

78. The scheme had not stood still in terms of content either. First of all, its geographical scope had been extended, with the Community deciding to extend its preferences to all the former Soviet Republics for 1993 on an exceptional and temporary basis. The Community felt that these new countries, after the political upheavals they had been through, were faced with a political, economic and social crisis of such major proportions that they had to be supported using all available means. The purpose of this support was to help smooth the difficult transition to an open market economy based on democratic institutions, and the only way of providing such support was to improve access to the Community market for the new Republics' exports, thus providing a fillip to the restructuring, redeployment and revitalization of their industrial and agricultural sectors, speeding up their economic development and boosting their growth rate. However, GSP preferences had not been extended to these countries' textiles, fisheries and iron and steel products.

79. He also drew the Committee's attention to a technical change in the Community's scheme which was of fundamental significance to exporting countries. This concerned conversion of the textile quotas distributed among the member States into amounts fixed at the Community level. This was a logical consequence of the entry into force of the single market on 1 January 1993 and had also, above all, made life considerably easier for exporters, who were thus sure to benefit from the elimination of the Community's internal frontiers and the administrative transparency that this development entailed.

80. Romania and Bulgaria would cease to be beneficiaries of the scheme as from 1 May 1993 and 1 June 1993 respectively when their exports would come under the arrangements laid down in the Interim Agreements regarding trade between them and the Community. The Community had also decided this year to

extend the MFA textiles section of its scheme to Albania, the Baltic States and Viet Nam, and to add Cambodia, Liberia, Madagascar, the Solomon Islands, Vanuatu, Zaire and Zambia to the list of those countries benefiting from the conditions applied to the least developed nations.

81. The Community had not as yet reached any decision as to the content of its scheme for 1994. However, its preparatory work for this purpose continued to be guided by the principles already expounded in the Committee the previous year.

82. Since the Committee's previous session, all UNCTAD's subsidiary bodies had met in order to establish their work programmes. Some of these programmes contained references to preferential treatment, and the subsidiary bodies concerned should take into due account the results achieved in the Special Committee and keep the latter informed of any discussions they might have on this matter.

83. The representative of China welcomed the fact that, since the last session of the Committee, some preference-giving countries had increased the number of beneficiaries of their schemes and enlarged their product coverage and preferential limits. However, the GSP as a whole had suffered a gradual weakening caused by both external factors such as regionalization of the world economy and the various practices of preference-giving countries. These practices included unilateral discriminatory measures, non-tariff measures against products covered under the GSP, especially anti-dumping measures, and demand for reciprocal preferences from preference-receiving countries. All these measures ran counter to the basic principles of the GSP and had very harmful effects on the utilization of the GSP by the developing countries.

84. Another worrisome practice was the removal of preferences through product or country graduation. Often, in taking such actions, preference-giving countries tended to be arbitrary, and some of them linked preferences with such non-trade issues as rights of workers, intellectual property and the environment. This was also in serious violation of the principle of non-reciprocity of the GSP, and, moreover, harmed the industrialization, export-trade, investment and cooperation projects of the developing countries.

85. As a preference-receiving country, China had obtained some good results in utilizing the GSP. However, owing to the limitations imposed on China by the various protective measures of the preference-giving countries, the rate of GSP utilization had never been high, and China therefore hoped that the preference-giving countries would improve their GSP schemes. The secretariat report had shown that there was wide scope for improvement on the basis of measures such as: (i) reaffirmation of the generalized, non-discriminatory and non-reciprocal nature of the GSP and renewed endeavour to achieve its objectives; (ii) harmonization, simplification and liberalization of the rules of origin by the preference-giving countries; (iii) measures by the preference-giving countries to expand product coverage, increase the range of tariff preferences and the maximum country amounts according to the export supply capabilities of the preference-receiving countries, and as much as possible reduce and eliminate non-tariff measures on GSP-covered products; (iv) reduction as much as possible of the practice of arbitrarily removing products or countries from GSP treatment. Any such removal should be done on the basis of multilaterally agreed criteria. The affected country should

be consulted beforehand, in order to allow its exporters sufficient time for adjustment. In addition, the removal should be implemented in a stage-by-stage fashion, so as to minimize any negative effects this removal might have on the industries of the preference-receiving country; and (v) strengthening of the technical assistance projects on GSP. All parties should endeavour to finance such projects.

86. Finally, he expressed appreciation to UNCTAD and the Austrian Government for the technical assistance they had provided to China by organizing a training seminar in Austria on international trade policies.

87. With regard to agenda item 4, preference-giving countries had made positive efforts with a view to the simplification, harmonization and liberalization of the rules of origin. None the less, some rules had impeded the full utilization of the GSP. This mainly concerned the rigid restrictions in the rules of some preference-giving countries, their wide divergences and their complexity. A number of measures could be taken to improve the situation. Firstly, "global cumulation" and "donor country content" should be granted at an early date. Since in today's world, manufacturing industries were specialized and regionalized, it was common for a finished product to contain some non-originating materials and parts. The inclusion of "global cumulation" and "donor country content" in the GSP rules of origin would play a positive role in increasing the exports of the preference-receiving countries, in promoting economic and trade cooperation among the developing countries as well as between the developing countries and the developed countries, and in the realization of the three major objectives of the GSP.

88. Secondly, all preference-giving countries should adopt the "processing criterion" and rely on "HS tariff heading change" as a major means of judgement of this criterion. The "percentage criterion" used by some preference-giving countries was rather complex. In order to comply with this criterion, manufacturers had to make many calculations, and the certifying authorities had to check and verify, for each finished product, the prices of its various materials and spare parts and components, while these prices kept changing constantly, thus adding to the difficulty. Everything considered, the "processing criterion" was easier to grasp and operate.

89. Thirdly, preference-giving countries using the "processing criterion" should do their utmost to simplify, harmonize and liberalize the requirements in process lists. Some countries using the "processing criterion" had additional percentage requirements, which also differed widely. For example, the process lists of some preference-giving countries contained eight different percentage requirements. This caused great difficulties to manufacturers and exporters in their understanding of and compliance with the rules of origin. It had also caused great difficulty for the certifying authorities in their supervision of the finished or semi-finished products under certificate of origin Form A. Moreover, certain requirements in the processing lists were too rigid and were seriously affecting GSP entitlement for products exported by China.

90. The representative of Mexico said that the GSP, in its 20 years of operation, had demonstrated itself to be an efficient instrument of international cooperation. However, product coverage must be improved, since

only 48.9 per cent of dutiable imports were covered under the schemes and for various reasons only about half of those imports actually received preferential treatment. He drew attention to the existence of non-tariff barriers which hindered the full use of the GSP, and said that this was a field where more effective action was needed.

91. The trade liberalization implemented by developing countries should find a response on the part of donor countries, especially through the inclusion of additional products under the GSP. It was also important to impart greater security to the schemes with a view to ensuring greater predictability for exports.

92. He appealed for more resources to be made available for technical assistance and expressed the hope that his country would continue to be a beneficiary of UNCTAD technical cooperation activities.

93. The representative of Brazil reiterated the importance his country attached to stability and transparency in the operation of the GSP schemes. Predictability of market access was a crucial element for exporters, in particular in cases where entrepreneurial and administrative structures were deficient or when new markets had to be found for non-traditional exports. Although the autonomous nature of the GSP made it intrinsically unstable, there were many aspects of the different schemes that could be changed with a view to increasing predictability and transparency. Examples were the duration of the schemes and consultations with beneficiaries concerned about modifications or exclusions. Other steps which could lead to significant improvements in the utilization of GSP included allowing private associations to issue GSP certificate of origin Form A and allowing the use of automatic data processing equipment for issuance of these certificates. Simplification and harmonization of rules of origin were also highly desirable and should include global cumulation and donor country content. He noted that, since the last session of the Committee, no progress had been made with regard to the desirability of pursuing a two-way harmonization of the percentage criterion and the process criterion.

94. The Committee should discuss ways of collectively making preference-giving countries more aware of and responsive to issues and suggestions made for improvement since the schemes were autonomous and beneficiary countries had limited possibilities with regard to influencing the decisions of preference-giving countries' authorities. He stressed that the ultimate objective of developing countries in utilizing the GSP was to become competitive in international markets, and predictability of market access and transparency of the rules to be followed were essential elements of this effort. Any multilateral examination of the graduation issue in connection with the GSP must be undertaken in the context of the general objectives of the GSP and within the framework of a more general revision of the system. One of the major modifications of the GSP in recent years had been the inclusion of Central and Eastern European countries as beneficiaries in some schemes. His country concurred with those who suggested that the consequences of this action be studied in the light of the original objectives of the GSP.

95. The representative of Argentina said that the three basic GSP principles of generalization, non-discrimination and non-reciprocity were more valid than ever at the present time. When trying to improve the GSP, particular care

should be taken to ensure that its principles were not contravened, thus avoiding the risk of obtaining results that ran counter to the interests of developing countries. The autonomous and unilateral way in which the GSP was applied had resulted in great uncertainty, and that in turn had undermined the basis necessary for long-term planning of export policies. Developing countries were faced with loss of markets due to the absence of prior consultations before the removal of a preference. A "neutral impact" on developing countries was possible only if the removal of preferences was made on the basis of multilaterally agreed criteria which took into account the degree of effective maturity that a product had reached in the market. Otherwise the trade flows of developing countries were adversely affected rather than increased, thus undermining the principles of the system. Finally, developing countries were concerned over the granting of preferences to countries which were also preference-giving countries, and he suggested that the secretariat should study the implications of such a measure and report to the next session of the Special Committee.

96. The representative of Peru recalled that, at UNCTAD VIII, the GSP had been reaffirmed in terms of its mandate and purpose, and specific recommendations had been made to enlarge the scope of preferential treatment in conformity with the principles and objectives of the GSP. It had also been recommended that, following the MFN tariff reductions that would result from the Uruguay Round, preference-giving countries should increase the preferential margins under the GSP.

97. It should be noted that, in comparison with the total imports of OECD countries from GSP beneficiaries - US$ 407 billion - the percentage of imports that benefited from GSP treatment was too low, i.e. only 16.7 per cent, or US$ 68 billion.

98. The concept of graduation should be based on multilaterally agreed criteria and solely on economic and commercial considerations, to the exclusion of unilateral and political elements. In applying graduation, it was also necessary to take into account the needs of those countries which depended on the GSP for their market access to preference-giving countries. Even if the country-product graduation approach seemed to be the subject of consensus, account should be taken of those countries which relied on only a few products for their exports. He stressed the urgent need to harmonize the rules of origin in order to achieve better equivalence of access in preference-giving-country markets.

99. He welcomed the inclusion of articles of jewelery, bonito and lemon rind in the scheme of the United States. However, he was concerned over the indefinite postponement of the inclusion of new products of interest to Peru under that scheme. This postponement had resulted from alleged lack of agreement between the Peruvian authorities and an American insurance company concerning compensation for the nationalization of certain petroleum assets. On this issue, he emphasized that, in addition to a basic agreement reached in 1991, a new agreement had been concluded on 1 May 1993. He hoped that the United States would therefore reinstate those products of interest to Peru under its scheme and also include it under the Andean Trade Preference Act. He also expressed appreciation to the EC for granting some exceptional preferences to Andean Pact countries that had been affected by the illegal drug traffic.

100. Finally, he expressed concern over the 27 per cent decline in the financing of technical cooperation activities in 1992 in relation to 1991 and over the further decrease expected in 1993. He urged preference-giving countries to provide the necessary resources to maintain the high level of efficiency attained by the programme.

101. The representative of Zimbabwe said that his country was in the unique position of having a UNDP-funded national GSP project headed by an UNCTAD consultant who conducted project activities for the business community and the customs department. In 1992, project activities had been devoted to the dissemination of GSP information in general to the trading community and the public sector, while in 1993 they would focus on specific sectors such as textiles, agriculture and leather. He supported the appeal for further funding to carry out similar activities in other preference-receiving countries, and he welcomed the pledges made for 1993 by some preference-giving countries in this regard. He added that the national project for his country was to expire in October 1993, and he hoped it would be extended for another year on the basis of resources already budgeted but not yet spent.

102. The representative of Nepal said that the granting of duty-free treatment to certain products imported from the developing countries under the GSP was a significant initiative undertaken by the developed countries to support the development efforts of the developing countries, and Nepal, one of the beneficiaries of the system, regarded it as a useful instrument for the promotion of exports to developed countries. Extension of the GSP would help developing countries to accelerate the pace of development through export promotion in the years to come. Continuity in providing tariff concessions would encourage the developing countries to utilize such concessions by introducing new products eligible for preferential treatment. For the vast majority of the developing countries which had made little progress in industrialization, the GSP had the potential to stimulate product diversification for their exports.

103. Nepal had not been able to derive the full benefits of the GSP, mainly because its economy was agro-based, with only a few manufactures to offer for export. Some cottage-based industrial products, such as handicrafts and carpets, had benefited from the GSP scheme in some preference-giving countries like EEC, but the GSP scheme of the United States did not include hand-knotted woollen carpets, which were at present the most promising exportable and employment-generating product of Nepal. The inclusion of hand-knotted woollen carpets in the United States GSP scheme would help promote carpet exports to that market. The carpet industry contributed more than 6 per cent of the total GNP of Nepal and accounted for 58 per cent of total export commodities, besides giving employment to thousands of rural people.

104. To address the particular needs and problems of the least developed land-locked countries like Nepal, certain changes had to be made in the GSP scheme. In particular, the carpet industry, which was a major source of employment and foreign exchange earnings in Nepal, should be included in the schemes. As the level of technological development in the LDCs like Nepal was very low in comparison to other developing countries, the value added criteria under the rules of origin had to be made more favourable for them. Such a relaxation in the rules of origin would also help to encourage foreign investment in the LDCs like Nepal.

105. Finally, the 1995 policy review on the GSP should pay particular attention to the granting of full duty-free preferential treatment, reduction of non-tariff measures, expansion of product coverage, relaxation of safeguards and simplified rules of origin.

106. The representative of Chile, speaking at the closing plenary on 14 May 1993, said that his Government had sent an expert from the capital in order to derive the maximum benefit from the bilateral meetings, and in that connection it might be useful to have a fund to enable countries without the necessary financial means to send experts to future sessions of the Special Committee. His delegation's experience at the Special Committee's twentieth session had been very positive due to the high degree of professionalism and commitment on the part of preference-giving countries. Finally, he was confident that the secretariat would act positively in following up on the agreements reached by the Special Committee regarding preparations for the Committee's next session and in particular the 1995 policy review.

Action by the Special Committee

107. At the Special Committee's closing plenary, on 14 May 1993, the Chairman introduced a Chairman's summary (TD/B/SCP/Misc.3) and a draft text on preparations for the 1995 policy review on the GSP (TD/B/SCP/Misc.2).

108. The Special Committee adopted the draft text on preparations for the 1995 policy review on the GSP (for the text, see annex I) and decided to annex the Chairman's summary to its report (see annex II).

## Chapter II

## ORGANIZATIONAL MATTERS

### A. Opening of the session

109. The twentieth session of the Special Committee on Preferences was opened by the Deputy to the Secretary-General of UNCTAD.

### B. Election of officers

(Agenda item 1)

110. At its 177th plenary meeting on 10 May 1993, the Special Committee elected its bureau as follows:

Chairman: Mr. Bachrum S. Harahap (Indonesia)

Vice-Chairmen: Mr. Laurent Brice Conlon (Benin)
Mr. Hugo Cubillos (Chile)
Mr. Thomas S. Fusco (United States of America)
Mr. Peter Gebert (Denmark)
Mr. Gomi Senadhira (Sri Lanka)

Rapporteur: Mr. Evgueni Manakine (Russian Federation)

### C. Adoption of the agenda and organization of work

(Agenda item 2)

111. Also at its 177th plenary meeting, on 10 May 1993, the Special Committee adopted its provisional agenda (TD/B/SCP/1) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twenty-first session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

## D. Provisional agenda for the twenty-first session of the Special Committee on Preferences

(Agenda item 6)

112. At its closing plenary meeting, on 14 May 1993, the Special Committee approved the provisional agenda for its twenty-first session (TD/B/SCP/L.2), as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences, including preparations for the 1995 policy review on the GSP

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twenty-second session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

## E. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

(Agenda item 8)

113. At its closing plenary meeting, on 14 May 1993, the Special Committee adopted its draft report (TD/B/SCP/L.1 and Add.1 and 2) and authorized the Rapporteur to complete the report as appropriate to reflect the proceedings of the closing plenary.

Annex I

**PREPARATIONS FOR THE 1995 POLICY REVIEW ON GSP 1/**

1. The Special Committee on Preferences decided to begin preparations for the 1995 policy review on the GSP. The twenty-first session of the Special Committee should therefore be considered, inter alia, as a preparatory meeting for the 1995 policy review on the GSP. In order to streamline discussions during the said meeting, the UNCTAD secretariat is requested to prepare in-depth analytical studies on the possibilities for improving the functioning and enhancing the impact of the GSP in the light of the evolution of the international economic and political environment.

2. In preparing the studies and reports mentioned above for the preparatory meeting, in accordance with paragraph 85 of the Cartagena Commitment, the Secretary-General of UNCTAD may wish to consider the advice of senior GSP experts, eminent personalities in international economics and international trade, academics or representatives of the business communities, from both developed and developing countries.

3. The Secretary-General of UNCTAD may also wish to consider the possibility of inviting Governments to sponsor the participation of eminent and competent personalities in the twenty-first session of the Special Committee on Preferences.

Note

1/ Adopted at the Special Committee's 180th (closing) plenary on 14 May 1993 (see para. 108 above).

## Annex II

### CHAIRMAN'S SUMMARY 1/

1. The Special Committee on Preferences held discussions on issues relating to the implementation of the generalized system of preferences, and issues pertaining to the rules of origin and technical assistance in connection with the GSP. The Committee also held informal discussions on those topics. In parallel to these discussions, 80 bilateral consultations were held with respect to individual schemes.

2. The Committee agreed that the GSP was an effective instrument for trade and economic cooperation between developed and developing countries.

3. Developing countries stressed that all schemes should be extended on a long-term basis so as to ensure stability and predictability of their advantages. Developed countries concerned reaffirmed their commitment to the aims and principles of the GSP and indicated their Governments' efforts to extend the life of their schemes.

4. Developed countries described the changes and improvements made under the schemes since the last review. These involved additions to the lists of beneficiary countries, the addition of products under some schemes and improvement in preferential limits. They noted with satisfaction that preferential imports were increasing at a steady pace and often faster than total imports. Some preference-giving countries considered that the addition of Central and Eastern European countries to the beneficiary lists was necessary to help these countries overcome the transition to an open market economy. Some developing countries considered this to be a significant development which required study of its legal and economic implications, while others wanted to confine the study to economic implications only. Strong interest was expressed by many delegations in having the secretariat carry out a study on economic implications. Some developed countries expressed doubt about the feasibility of such a study.

5. Developing countries emphasized that there was ample scope for improvement of the schemes in terms of trade coverage and methods of operation. They cited secretariat figures which indicated that the trade eligible for preferential treatment had remained constant over the years at no more than 50 per cent of dutiable imports. Similarly, preferential imports, which reflected the utilization of the schemes, had remained at about 25 per cent of dutiable imports. Clearly, there was a need to expand the product coverage to include all products of export interest to developing countries, in particular labour-intensive and agricultural products. It was also necessary to grant these products deeper tariff cuts, including duty-free treatment. In this connection, developing countries expressed concern over the erosion of the preferential margins that might result from MFN tariff reductions after the conclusion of the Uruguay Round. They called for favourable adjustment of preferential margins. Similarly, the tariffication of non-tariff measures would present possibilities for favourable tariff treatment. A number of developing countries asked the secretariat to study the impact of the Uruguay Round in this regard and to identify the follow-up action required to strengthen the effectiveness of the GSP.

6. The methods of operation of the schemes had a great impact on the scheme's utilization. Developing countries explained that the built-in limitations in the schemes, such as tariff quotas, ceilings, maximum country amounts and competitive need limitations, considerably reduced the possibilities of achieving the declared objectives of the GSP, namely to promote their exports and industrialization. Graduation, both product and country-wise, further undermined the opportunities under the schemes. These measures were contrary to the GSP principles of non-discrimination and non-reciprocity, and went against the objectives of the GSP. They stressed the need to arrive at a consensus on multilaterally agreed criteria for application of such measures. In principle, these criteria should be based strictly on trade and economic considerations, to the exclusion of non-trade issues. Sustained and absolute competitiveness must be demonstrated before a preference was withdrawn from a product. Graduation measures decided upon on the basis of multilaterally agreed criteria should be applied only after sufficient time had been given to beneficiaries to allow them to adapt their supply to the new access conditions.

7. Developing countries expressed concern over the lack of progress in harmonizing the rules of origin, which were at present based on two different criteria, namely the process criterion and the percentage criterion. They felt that such harmonization was necessary to simplify the rules and would also lead to better equivalence of access to preference-giving country markets. One member State expressed preference for a switch-over to the process criterion. Developing countries stressed that donor country content as well as global cumulation should be introduced by all preference-giving countries. These measures would help promote trade cooperation between developed and developing countries and also among developing countries. They also described the difficulties in meeting the rigid process requirements under the rules, which in many instances called for multi-stage transformations or were further complicated by additional percentage requirements. One developing country suggested that private associations should be allowed to certify certificates of origin Form A. Some developed countries urged beneficiary countries concerned to notify the name and stamp of their certifying authorities to qualify for preferential treatment. A group of preference-giving countries indicated that donor country content, together with regional cumulation, could increase the efficiency of the system of preferences, bearing in mind the need for special measures in favour of the least developed countries. Some developing countries expressed dissatisfaction over the fact that the problem of the rules of origin had not been adequately discussed at the current session of the Committee and suggested that the next session should have the necessary documentation for a comprehensive and detailed review.

8. It was agreed that technical assistance was an effective tool for dissemination of GSP information and the improvement of its utilization. Developing countries stressed the need for the intensification of technical assistance taking into account increased demands from, in particular, newly designated beneficiary countries and least developed beneficiary countries. While grateful to those member States which provided financial and in-kind contributions to the UNCTAD Technical Cooperation Programme, many developing countries expressed their concern regarding the decline in the resources available for such assistance. There was consensus that, with a view to meeting the growing number of requests, every possible opportunity for

fund-raising should be explored. In this regard, developing countries appealed to all potential and actual donors and UNDP to provide further assistance. It was agreed that technical assistance activities should be of a practical and pragmatic nature, provide an opportunity for informal consultations to solve immediate problems encountered and pay due attention to requests made by least developed countries.

9. While agreeing to the importance of the GSP, a number of countries felt that the system should be revitalized and that fresh and innovative approaches should be taken in its design, review and improvement. In this context, there was a general consensus that the Committee should conduct a policy review on the GSP and that the next session could serve in part as a preparatory meeting for this review. In this process, it was felt that there was a need to take the advice of eminent persons from the academic, government and enterprise sectors. The Committee also felt that all countries should be encouraged to send all necessary data regarding the utilization of the schemes, constraints and difficulties, particularly in regard to the rules of origin, to the secretariat to enable it to prepare the necessary documentation for the review.

Note

1/ Annexed to the Special Committee's report in accordance with the decision taken by the Special Committee at its 180th (closing) plenary meeting on 14 May 1993 (see para. 108 above).

## Annex III

## ATTENDANCE 1/

1. The following States members of UNCTAD were represented at the session:

Afghanistan
Algeria
Argentina
Australia
Austria
Bangladesh
Belarus
Belgium
Benin
Bhutan
Bolivia
Brazil
Bulgaria
Cameroon
Canada
Chile
China
Colombia
Côte d'Ivoire
Croatia
Cuba
Czech Republic
Democratic People's Republic of Korea
Denmark
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Germany
Ghana
Greece
Hungary
India
Indonesia
Iraq
Ireland
Israel
Italy
Japan
Kenya
Lebanon
Libyan Arab Jamahiriya
Lithuania
Madagascar
Mexico
Morocco
Myanmar
Namibia
Nepal
Nigeria
Netherlands
New Zealand
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Senegal
Slovakia
Spain
Sri Lanka
Sweden
Switzerland
Thailand
Trinidad and Tobago
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela
Zimbabwe

2. The following specialized and related agencies were represented at the session:

World Bank
International Monetary Fund

The General Agreement on Tariffs and Trade was also represented.

3. The following intergovernmental organizations were represented at the session:

European Community
International Customs Tariffs Bureau

4. The following non-governmental organizations were represented at the session:

General Category

Friends World Committee for Consultation (Quakers)
Women's International League for Peace and Freedom
World Federation of United Nations Associations

Note

1/ For the list of participants, see TD/B/SCP/INF.1.

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